



SEKHUKHUNE

District Municipality

Consolidated Sekhukhune District Municipality
Annual Financial Statements
for the year ended 30 June 2019

Consolidated Sekhukhune District Municipality

(Registration number DC 47)

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)

Nature of business and principal activities

The provision of services (water and sanitation) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

Mayoral committee

Executive Mayor

Cllr Ramaila KS
Cllr Manamela MM (Council Speaker)
Cllr Lepota TJ (Chief Whip)
Cllr Sihlangu TL
Cllr Mahlangu MF
Cllr Nchabeleng TL
Cllr Matlala MA
Cllr Manganeng ML
Cllr Mnisi SP
Cllr Mmakola MY
Cllr Nkosi SM

Councillors

Cllr Mafefe OH
Cllr Mamekoa RS
Cllr Sefala KRE
Cllr Mhlanga CT
Cllr Maila SM
Cllr Matsetela ML
Cllr Mohlala MC
Cllr Moimane MT
Cllr Mtsweni BW

Grading of local authority

Grade 4 Municipality

Chief Finance Officer (CFO)

Mr JM Mofokeng

Accounting Officers

Ms NT Maseko
Mr JM Mofokeng (Acting)

Registered office

03 West Street
Groblersdal
0470

Postal address

Private Bag X8611
Groblersdal
0470

Bankers

Standard Bank

Auditors

Auditor General (SA)
Chartered Accountants (S.A.)
Registered Auditors

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independent auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 50, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:

Mr MJ Mofokeng
Acting Municipal Manager

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Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2019.

Audit committee members and attendance

The audit committee consists of the members listed below and should meet 4 times per annum as per its approved terms of reference. During the current year 7 meetings were held.

Name of member	Number of meetings attended
Mr L Lankalebalela	7
Mr M Mokwele	6
Ms G Molepo	3
Ms M Ndlovhu	5
Ms T Mathabatha	2

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166 (2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer and senior management of the municipality ;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: _____

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Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 325 796 299 (2018: surplus R 376 223 495).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on continued funding by National Government as per DORA over the MTREF period. There are no reasons to believe that funding may be stopped in the foreseeable future

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Bankers

Standard bank has been appointed as the primary banker of the municipality during the year for a period of five years

6. Auditors

Auditor General (SA) will continue in office for the next financial period.

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Consolidated Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	6	22 284 009	26 261 454
Receivables from non-exchange transactions	7	69 713 224	64 727 267
VAT receivable	8	48 552 674	58 662 136
Receivables from exchange transactions	9	101 861 361	70 420 853
Cash and cash equivalents	10	71 329 836	103 906 202
		313 741 104	323 977 912
Non-Current Assets			
Property, plant and equipment	3	3 352 534 186	2 957 111 636
Intangible assets	4	7	7
		3 352 534 193	2 957 111 643
Total Assets		3 666 275 297	3 281 089 555
Liabilities			
Current Liabilities			
Borrowings	12	-	276 925
Operating lease liability	5	1 227 561	960 256
Payables from exchange transactions	14	443 196 518	390 104 076
Consumer deposits	15	4 209 180	3 808 715
Unspent conditional grants and receipts	11	62 579 407	46 739 400
Provisions	13	22 457 905	31 282 745
		533 670 571	473 172 117
Non-Current Liabilities			
Provisions	13	21 426 853	22 535 863
Total Liabilities		555 097 424	495 707 980
Net Assets		3 111 177 873	2 785 381 575
Reserves			
Revaluation reserve		100 000	100 000
Accumulated surplus		3 111 077 873	2 785 281 575
Total Net Assets		3 111 177 873	2 785 381 575

* See Note 35

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Consolidated Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	86 115 109	71 060 559
Interest received - Debtors		11 892 632	8 159 250
Creditors written off		87 737	-
Actuarial gains		927 478	2 128 061
Other income		5 210 833	2 662 720
Provision for landfill site written back		12 441 973	9 607 460
Interest received	18	11 954 312	11 778 640
Total revenue from exchange transactions		128 630 074	105 396 690
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	19	1 320 585 633	1 251 871 451
Total revenue	16	1 449 215 707	1 357 268 141
Expenditure			
Employee related costs	20	(376 322 671)	(337 069 591)
Remuneration of councillors	21	(16 597 724)	(17 171 151)
Repairs and maintenance		(56 366 047)	(43 776 037)
Depreciation and amortisation	22	(85 982 872)	(79 531 849)
Impairment loss	23	(3 767 402)	(2 636 107)
Finance costs	24	(3 829 748)	(3 562 103)
Lease rentals on operating lease		(56 055 152)	(57 496 429)
Debt Impairment	25	(15 101 117)	(15 754 455)
Board fees		(575 646)	(258 676)
Bulk purchases	26	(196 006 452)	(133 159 049)
Contracted services	27	(66 260 366)	(76 603 384)
Loss on disposal of assets and liabilities		(276 547)	(3 608 186)
General Expenses	28	(246 277 664)	(214 841 065)
Total expenditure		(1 123 419 408)	(985 468 082)
Surplus for the year		325 796 299	371 800 059

* See Note 35

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Consolidated Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	2 416 522 701	2 416 522 701
Adjustments			
Prior year adjustments	-	(3 041 185)	(3 041 185)
Balance at 01 July 2017 as restated*	-	2 413 481 516	2 413 481 516
Changes in net assets			
Revaluation of land	100 000	-	100 000
Net income (losses) recognised directly in net assets	100 000	-	100 000
Surplus for the year	-	371 800 059	371 800 059
Total recognised income and expenses for the year	100 000	371 800 059	371 900 059
Total changes	100 000	371 800 059	371 900 059
Restated* Balance at 01 July 2018	100 000	2 785 281 574	2 785 381 574
Changes in net assets			
Surplus for the year	-	325 796 299	325 796 299
Total changes	-	325 796 299	325 796 299
Balance at 30 June 2019	100 000	3 111 077 873	3 111 177 873
Note(s)			

* See Note 35

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Consolidated Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		53 678 758	43 966 872
Grants		1 335 173 772	1 262 979 937
Interest income		11 954 312	11 778 640
Other receipts		3 518 373	2 662 720
		1 404 325 215	1 321 388 169
Payments			
Employee costs		(392 530 796)	(349 072 054)
Suppliers		(558 297 554)	(468 476 954)
Finance costs		(346 933)	(246 239)
		(951 175 283)	(817 795 247)
Net cash flows from operating activities	30	453 149 932	503 592 922
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(485 449 373)	(417 668 626)
Cash flows from financing activities			
Repayment of borrowings		(276 925)	(968 724)
Net cash flows from financing activities		(276 925)	(968 724)
Net increase/(decrease) in cash and cash equivalents		(32 576 366)	84 955 572
Cash and cash equivalents at the beginning of the year		103 906 202	18 950 630
Cash and cash equivalents at the end of the year	10	71 329 836	103 906 202

* See Note 35

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Consolidated Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	82 307 636	(2 800 000)	79 507 636	86 115 109	6 607 473	Note 45 - N1
Interest received (trading)	6 769 830	2 000 000	8 769 830	11 892 632	3 122 802	Note 45 - N2
Fees earned	-	-	-	87 737	87 737	
Discount received	-	-	-	927 478	927 478	
Other income	6 710 271	(1 175 000)	5 535 271	5 210 833	(324 438)	Note 45 - N3
Provision for landfill site written back	-	-	-	12 441 973	12 441 973	Note 45 - N4
Interest received - investment	12 312 608	(3 000 000)	9 312 608	11 954 312	2 641 704	Note 45 - N5
Total revenue from exchange transactions	108 100 345	(4 975 000)	103 125 345	128 630 074	25 504 729	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1 501 805 000	(59 031 000)	1 442 774 000	1 320 585 633	(122 188 367)	Note 45 - 6
Total revenue	1 609 905 345	(64 006 000)	1 545 899 345	1 449 215 707	(96 683 638)	
Expenditure						
Personnel	(342 334 621)	(18 197 507)	(360 532 128)	(376 322 671)	(15 790 543)	Note 45 - 7
Remuneration of councillors	(17 370 380)	1 719 686	(15 650 694)	(16 597 724)	(947 030)	Note 45 - 8
Repairs and maintenance	-	-	-	(56 366 047)	(56 366 047)	
Depreciation and amortisation	(66 126 601)	-	(66 126 601)	(85 982 872)	(19 856 271)	Note 45 - 9
Impairment loss/ Reversal of impairments	-	-	-	(3 767 402)	(3 767 402)	
Finance costs	(1 100 000)	-	(1 100 000)	(3 829 748)	(2 729 748)	Note 45 - 10
Lease rentals on operating lease	-	-	-	(56 055 152)	(56 055 152)	Note 45 - 11
Debt Impairment	-	-	-	(15 101 117)	(15 101 117)	Note 45 - 12
Board Fees	(556 080)	(22 548)	(578 628)	(575 646)	2 982	
Bulk purchases	(112 542 000)	23 844 473	(88 697 527)	(196 006 452)	(107 308 925)	Note 45 - 13
Contracted Services	(273 528 525)	23 043 743	(250 484 782)	(66 260 366)	184 224 416	Note 45 - 14
General Expenses	(127 358 880)	(18 060 518)	(145 419 398)	(246 277 664)	(100 858 266)	Note 45 - 15
Total expenditure	(940 917 087)	12 327 329	(928 589 758)	(1 123 142 861)	(194 553 103)	
Operating surplus	668 988 258	(51 678 671)	617 309 587	326 072 846	(291 236 741)	
Loss on disposal of assets and liabilities	-	-	-	(276 547)	(276 547)	Note 45 - 16
Surplus before taxation	668 988 258	(51 678 671)	617 309 587	325 796 299	(291 513 288)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	668 988 258	(51 678 671)	617 309 587	325 796 299	(291 513 288)	

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Consolidated Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	27 759 000	-	27 759 000	22 284 009	(5 474 991)	
Receivables from exchange transactions	75 950 892	-	75 950 892	-	(75 950 892)	
Receivables from non-exchange transactions	47 402 844	-	47 402 844	69 713 224	22 310 380	
VAT receivable	-	-	-	48 552 674	48 552 674	
Consumer debtors	-	-	-	101 861 361	101 861 361	
Cash and cash equivalents	71 964 001	-	71 964 001	71 329 836	(634 165)	
	223 076 737	-	223 076 737	313 741 104	90 664 367	
Non-Current Assets						
Property, plant and equipment	4 457 877 786	(9 522 673)	4 448 355 113	3 352 534 186	(1 095 820 927)	
Intangible assets	-	-	-	7	7	
	4 457 877 786	(9 522 673)	4 448 355 113	3 352 534 193	(1 095 820 920)	
Total Assets	4 680 954 523	(9 522 673)	4 671 431 850	3 666 275 297	(1 005 156 553)	
Liabilities						
Current Liabilities						
Borrowings	10 172 000	-	10 172 000	-	(10 172 000)	
Operating lease liability	-	-	-	1 227 561	1 227 561	
Payables from exchange transactions	98 323 737	39 400 000	137 723 737	443 196 519	305 472 782	
Consumer deposits	2 626 000	-	2 626 000	4 209 180	1 583 180	
Unspent conditional grants and receipts	-	-	-	62 579 407	62 579 407	
Provisions	-	-	-	22 457 905	22 457 905	
	111 121 737	39 400 000	150 521 737	533 670 572	383 148 835	
Non-Current Liabilities						
Provisions	32 814 000	-	32 814 000	21 426 853	(11 387 147)	
Total Liabilities	143 935 737	39 400 000	183 335 737	555 097 425	371 761 688	
Net Assets	4 537 018 786	(48 922 673)	4 488 096 113	3 111 177 872	(1 376 918 241)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	-	100 000	100 000	
Accumulated surplus	4 537 018 786	(48 922 673)	4 488 096 113	3 111 077 872	(1 377 018 241)	
Total Net Assets	4 537 018 786	(48 922 673)	4 488 096 113	3 111 177 872	(1 376 918 241)	

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

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1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

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Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value as determined by the local municipalities in the approved valuation rolls.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite lifespan
Community assets	Straight line	15 to 30 years
Machinery and equipment	Straight line	2 to 19 years
Transport assets	Straight line	5 to 15 years
Furniture and office equipment	Straight line	3 to 10 years
IT equipment	Straight line	2 - 17 years
Leasehold improvements	Straight line	5 to 10 years
Infrastructure - Water, reservoirs and reticulation	Straight line	5 to 80 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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Accounting Policies

1.5 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 28).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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1.6 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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Accounting Policies

1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transaction	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Operating lease liability	Financial liability measured at amortised cost
Payables from exchange transaction	Financial liability measured at amortised cost
Bank Overdraft	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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1.6 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories for consumables is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

The cost of inventories for Operations and Maintenance materials not bought through normal stores system are assigned using the first-in, first-out (FIFO) formula..

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Accounting Policies

1.8 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, short-term money market instruments and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

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1.11 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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1.12 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

1.13 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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Accounting Policies

1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

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Accounting Policies

1.19 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

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Accounting Policies

1.22 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.23 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

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3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	900 000	-	900 000	900 000	-	900 000
Buildings	300 000	(53 279)	246 721	300 000	(43 306)	256 694
Plant and machinery	5 519 545	(1 859 743)	3 659 802	3 758 893	(1 240 189)	2 518 704
Furniture and office equipment	10 429 277	(5 818 197)	4 611 080	9 124 143	(4 394 728)	4 729 415
Transport assets	11 142 572	(4 719 951)	6 422 621	6 991 961	(3 477 657)	3 514 304
Office equipment	94 648	(94 572)	76	94 648	(93 833)	815
IT equipment	11 271 539	(5 756 314)	5 515 225	9 168 254	(4 329 684)	4 838 570
Leasehold improvements	200 300	(69 260)	131 040	200 300	(46 755)	153 545
Roads Infrastructure	65 704 027	(34 847 582)	30 856 445	65 704 027	(30 728 824)	34 975 203
Land and community assets	37 855 665	(17 660 154)	20 195 511	38 409 072	(15 745 294)	22 663 778
Communication equipment	161 404	(86 023)	75 381	161 404	(75 292)	86 112
Wastewater network	70 975 865	(32 172 440)	38 803 425	70 975 865	(29 372 656)	41 603 209
Water network	2 243 339 296	(577 958 139)	1 665 381 157	1 978 516 772	(502 074 022)	1 476 442 750
Assets under construction (WIP)	1 575 735 702	-	1 575 735 702	1 364 428 537	-	1 364 428 537
Total	4 033 629 840	(681 095 654)	3 352 534 186	3 548 733 876	(591 622 240)	2 957 111 636

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Disposal	Depreciation	Impairment loss	Total
Land	900 000	-	-	-	-	-	900 000
Buildings	256 694	-	-	-	(9 973)	-	246 721
Plant and machinery	2 518 704	1 760 652	-	-	(534 967)	(84 587)	3 659 802
Furniture and office equipment	4 729 415	1 305 135	-	-	(1 149 066)	(274 404)	4 611 080
Transport assets	3 514 304	4 150 612	-	-	(1 242 295)	-	6 422 621
Office equipment	815	-	-	-	(739)	-	76
IT equipment	4 838 570	2 103 285	-	-	(1 409 617)	(17 013)	5 515 225
Leasehold improvements	153 545	-	-	-	(22 505)	-	131 040
Roads Infrastructure	34 975 203	-	-	-	(3 930 229)	(188 529)	30 856 445
Land and Community Assets	22 663 778	-	-	(216 484)	(1 155 902)	(1 095 881)	20 195 511
Communication equipment	86 112	-	-	-	(10 731)	-	75 381
Wastewater network	41 603 209	-	-	-	(2 797 641)	(2 143)	38 803 425
Water network	1 476 442 750	26 422 387	238 400 137	-	(73 719 301)	(2 164 816)	1 665 381 157
Assets under construction (WIP)	1 364 428 537	449 707 302	(238 400 137)	-	-	-	1 575 735 702
	2 957 111 636	485 449 373	-	(216 484)	(85 982 966)	(3 827 373)	3 352 534 186

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
Land	900 000	-	-	-	-	-	-	900 000
Buildings	266 667	-	-	-	-	(9 973)	-	256 694
Plant and machinery	2 569 167	489 123	(138 718)	-	-	(400 868)	-	2 518 704
Furniture and equipment	4 917 808	779 684	(34 233)	-	-	(932 426)	(1 418)	4 729 415
Transport assets	3 523 408	716 200	(9 986)	-	-	(715 318)	-	3 514 304
Office equipment	24 234	-	-	-	-	(13 479)	(9 940)	815
IT equipment	4 447 023	1 542 651	(100 549)	-	-	(1 050 555)	-	4 838 570
Leasehold improvements	176 050	-	-	-	-	(22 505)	-	153 545
Roads Infrastructure	38 201 071	-	-	-	-	(3 225 868)	-	34 975 203
Land and community assets	26 424 410	29 500	(218 702)	(2 518 613)	100 000	(1 152 817)	-	22 663 778
Communication equipment	96 843	-	-	-	-	(10 731)	-	86 112
Wastewater network	43 186 828	-	-	1 741 998	-	(2 718 188)	(607 429)	41 603 209
Water network	1 288 514 971	12 668 833	(1 335 954)	247 829 419	-	(69 249 812)	(1 984 707)	1 476 442 750
Assets under construction (WIP)	1 208 295 559	401 442 635	-	(245 309 657)	-	-	-	1 364 428 537
	2 621 544 039	417 668 626	(1 838 142)	1 743 147	100 000	(79 502 540)	(2 603 494)	2 957 111 636

Pledged as security

No assets are pledged as security.

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure 1 575 387 202 1 364 428 537

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3. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Repairs and maintenance	56 366 047	43 776 037
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	185 122	(185 115)	7	185 122	(185 115)	7

Reconciliation of intangible assets - 2019

	Opening balance	Total
Computer software, other	7	7

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Impairment loss	Total
Computer software, other	61 930	(29 310)	(32 613)	7

5. Operating lease liability

Current liabilities	(1 227 561)	(960 256)
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Present value of minimum lease payments due

- within one year	(1 227 561)	(960 256)
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The lease liability is due to payments on leases to be made in the future years as a result of straight lining operating leases on office rentals and fleet

6. Inventories

Water inventory	1 133 518	1 078 457
Consumable stores	1 342 000	2 927 818
Maintenance Materials	19 808 491	22 255 179
	22 284 009	26 261 454

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Figures in Rand	2019	2018
7. Receivables from non-exchange transactions		
Government grants - RBIG Funds	50 506 249	47 673 673
Guarantees	17 379 596	17 379 596
Sundry debtors	1 827 379	(326 002)
	69 713 224	64 727 267
8. VAT receivable		
VAT	48 552 674	58 662 136
The VAT receivable is mainly made up of outstanding refunds at year end, penalties on disallowed VAT that was paid after year end and VAT on debtors and creditors		
9. Receivables from exchange transactions		
Gross balances		
Water	188 374 883	139 104 692
Waste water	12 810 205	17 231 231
Trade debtors	1 692 460	-
	202 877 548	156 335 923
Less: Allowance for impairment		
Water	(94 479 039)	(76 636 242)
Waste water	(6 537 148)	(9 278 828)
	(101 016 187)	(85 915 070)
Net balance		
Water	93 895 844	62 468 450
Waste water	6 273 057	7 952 403
Trade debtors	1 692 460	-
	101 861 361	70 420 853
Water		
Current (0 -30 days)	7 594 888	8 918 591
31 - 60 days	6 424 913	6 560 541
61 - 90 days	5 513 185	2 920 798
91 - 120 days	4 311 764	5 615 893
121 - 365 days	164 530 134	115 088 869
Debt impairment	(94 479 040)	(76 636 242)
	93 895 844	62 468 450
Waste water		
Current (0 -30 days)	1 041 164	1 013 025
31 - 60 days	695 253	745 184
61 - 90 days	554 156	331 762
91 - 120 days	500 558	637 885
121 - 365 days	10 019 074	14 503 375
> 365 days	(6 537 148)	(9 278 828)
	6 273 057	7 952 403
Trade debtors		
Current (0 -30 days)	1 692 460	-

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9. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(85 915 070)	(70 160 616)
Contributions to allowance	(15 101 117)	(15 754 454)
	(101 016 187)	(85 915 070)

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	12 461 544	18 776 834
Short-term deposits	58 868 292	85 129 368
	71 329 836	103 906 202

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Standard bank - Primary Account	10 678 590	18 497 863	(1 495 480)	12 159 794	18 295 305	(488 657)
FNB Call account	775 630	32 727 255	10 530 179	775 630	32 727 255	10 530 179
Nedbank call account	16 150 624	-	-	16 150 624	42 271	-
ABSA Call account	41 941 330	-	251 435	41 942 038	87 300	252 857
Standard bank call account	-	52 272 542	8 178 362	-	52 272 542	8 178 362
ABSA Business Account	301 750	481 529	-	301 750	481 529	-
Total	69 847 924	103 979 189	17 464 496	71 329 836	103 906 202	18 472 741

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	16 168 634	36 834 705
Finance Management Grant (FMG)	5	-
Water Services Infrastructure Grant (WSIG)	44 877 946	8 184 087
Expanded Public Works Programme (EPWP)	653	-
Rural Roads Asset Management System Grant (RRAMS)	5 340	-
Industrial Development Corporation (IDC)	1 526 829	1 720 608
	62 579 407	46 739 400

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 19 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

12. Borrowings

At amortised cost

Loan - Anglo Platinum loan	-	276 925
Unsecured loan bearing interest at 8%		

The loan was full repaid during the current financial year.

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Figures in Rand	2019	2018					
12. Borrowings (continued)							
Current liabilities							
At amortised cost	-	276 925					
13. Provisions							
Reconciliation of provisions - 2019							
	Opening Balance	Additions	Utilised during the year	Employee benefits vesting	Change in discount factor	Acturial gains and losses	Total
Environmental rehabilitation - Landfill site	12 441 973	-	(12 441 973)	-	-	-	
Unused leave provision	26 036 129	3 429 240	-	(3 365 462)	2 254 083	(3 955 647)	24 398 34
Long service award provision	15 340 506	1 485 483	-	(1 596 475)	1 228 732	3 028 169	19 486 41
	53 818 608	4 914 723	(12 441 973)	(4 961 937)	3 482 815	(927 478)	43 884 75
Reconciliation of provisions - 2018							
	Opening Balance	Additions	Utilised during the year	Employee benefits vesting	Change in discount factor	Acturial gains and losses	Total
Environmental rehabilitation	21 980 081	(239 984)	(9 607 460)	-	309 336	-	12 441 97
Unused leave provision	25 350 539	3 354 433	-	(2 573 466)	2 209 544	(2 304 921)	26 036 12
Long service award provision	13 722 370	1 420 626	-	(1 085 670)	1 106 320	176 860	15 340 50
	61 052 990	4 535 075	(9 607 460)	(3 659 136)	3 625 200	(2 128 061)	53 818 60
Non-current liabilities					21 426 853	22 535 863	
Current liabilities					22 457 905	31 282 745	
					43 884 758	53 818 608	

Unused leave provision

The provision is the value of unused leave liability at year end. The following assumptions were used in the determination of the leave liability:

The discount rate of 8.07% and the general salary inflation of 5.51% resulting in net effective discount rate of 2.43%. The average retirement age was assumed to be 62 years.

Long service awards provision

The provision is the value of long service award liability that is expected to be payable under the municipality's current arrangements and as per condition of service approved by SALGBC. The following assumptions were used in determining the long service award liability:

852 employees were eligible for long service awards. The discount rate of 9.13% and the general salary inflation of 6.15% resulting in net effective discount rate of 2.81%. The average retirement age was assumed to be 62 years.

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14. Payables from exchange transactions

Trade payables	274 058 687	209 726 819
Other payables	87 236	16 504 143
Retention and sessions	158 174 190	153 951 653
Deposits received	2 675 571	2 155 389
Bonus provision	7 958 905	7 519 558
Leave accrual	241 929	246 514
	443 196 518	390 104 076

15. Consumer deposits

Water	4 209 180	3 808 715
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16. Revenue

Service charges	86 115 109	71 060 559
Interest received (trading)	11 892 632	8 159 250
Creditors written off	87 737	-
Actuarial gains	927 478	2 128 061
Other income	5 210 833	2 662 720
Provision for landfill written back	12 441 973	9 607 460
Interest received - investment	11 954 312	11 778 640
Government grants & subsidies	1 320 585 633	1 251 871 451
	1 449 215 707	1 357 268 141

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	86 115 109	71 060 559
Interest received (trading)	11 892 632	8 159 250
Creditors written off	87 737	-
Actuarial gains	927 478	2 128 061
Other income	5 210 833	2 662 720
Provision for landfill written back	12 441 973	9 607 460
Interest received - investment	11 954 312	11 778 640
	128 630 074	105 396 690

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Transfer revenue

Government grants & subsidies	1 320 585 633	1 251 871 451
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17. Service charges

Sale of water	78 801 129	62 135 621
Sewerage and sanitation charges	7 313 980	8 924 938
	86 115 109	71 060 559

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Figures in Rand	2019	2018
18. Investment revenue		
Interest revenue		
Short term investments	9 689 842	9 546 482
Primary bank account	2 264 470	2 232 158
	11 954 312	11 778 640

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Figures in Rand	2019	2018
19. Government grants and subsidies		
Operating grants		
Equitable share	711 480 000	658 579 596
Department of Health	-	10 031 000
Expanded Public Works Programme Grant (EPWP)	1 745 347	1 085 000
Finance Management Grant (FMG)	1 319 995	1 250 000
Rural Roads Assets Management Grant (RRAMS)	2 285 660	2 286 000
Industrial Development Corporation (IDC)	193 778	17 088
	717 024 780	673 248 684
Capital grants		
Municipal Infrastructure Grant (MIG)	480 067 221	427 207 295
Rural Bulk Infrastructure Grant (RBIG)	95 187 491	64 599 559
Water Services Infrastructure Grant (WSIG)	28 306 141	86 815 913
	603 560 853	578 622 767
	1 320 585 633	1 251 871 451
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	609 105 633	583 260 855
Unconditional grants received	711 480 000	668 610 596
	1 320 585 633	1 251 871 451
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	36 834 705	-
Current-year receipts	464 936 000	464 042 000
Conditions met - transferred to revenue	(480 067 071)	(427 207 295)
Amount deducted from Equitable Shares	(5 535 000)	-
	16 168 634	36 834 705
Conditions still to be met - remain liabilities (see note 11).		
Expanded Public Works Programme (EPWP)		
Current-year receipts	1 746 000	1 085 000
Conditions met - transferred to revenue	(1 745 995)	(1 085 000)
	5	-
Conditions still to be met - remain liabilities (see note 11).		
Water Services Infrastrucuture Grant (WSIG)		
Balance unspent at beginning of year	8 184 087	33 540 616
Current-year receipts	65 000 000	95 000 000
Conditions met - transferred to revenue	(28 306 141)	(86 815 913)
Amount deducted from Equitable share	-	(33 540 616)

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19. Government grants and subsidies (continued)

44 877 946 8 184 087

Conditions still to be met - remain liabilities (see note 11).

Finance Management Grant (FMG)

Current-year receipts	1 320 000	1 250 000
Conditions met - transferred to revenue	(1 319 347)	(1 250 000)
	653	-

Conditions still to be met - remain liabilities (see note 11).

Rural Roads Assets Management System Grant (RRAMS)

Balance unspent at beginning of year	-	483 980
Current-year receipts	2 291 000	2 286 000
Conditions met - transferred to revenue	(2 285 660)	(2 286 000)
Amount deducted from Equitable share	-	(483 980)
	5 340	-

Conditions still to be met - remain liabilities (see note 11).

Regional Bulk Infrastructure Grant (RBIG)

Balance outstanding at beginning of year	(47 673 672)	(44 990 085)
Current-year receipts	92 354 914	61 915 972
Current year spending - transferred to revenue	(95 187 491)	(64 599 559)
Outstanding receipts	50 506 249	47 673 672

Industrial Development Corporation

Balance unspent at beginning of year	1 720 608	1 737 696
Conditions met - transferred to revenue	(193 779)	(17 088)
	1 526 829	1 720 608

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 03 of 2017), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

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Figures in Rand	2019	2018
20. Employee related costs		
Basic	242 576 183	210 746 488
Bonus	2 533	-
Medical aid - company contributions	12 129 874	11 042 605
UIF	1 499 817	1 442 515
SDL	3 064 703	2 620 987
Other payroll levies	91 057	73 903
Leave pay provision charge	4 340 745	6 874 090
Group life	1 163 108	1 967 817
Pension Fund	36 137 899	31 858 184
Travel, motor car, accommodation, subsistence and other allowances	28 886 257	28 229 003
Overtime payments	27 585 129	22 420 798
Long-service awards	1 700 201	1 299 058
Housing benefits and allowances	2 308 555	1 431 515
Cellphone allowance	1 710 344	2 661 819
Shift and standby allowance	13 123 480	11 699 543
Uniform allowance	50 000	80 000
Group life cover	-	2 621 266
Defined benefit plan	(47 214)	-
	376 322 671	337 069 591

Remuneration of municipal manager

Annual Remuneration	1 091 228	1 123 774
Car Allowance	240 000	240 000
Contributions to UIF, Medical and Pension Funds	158 101	111 763
Other Allowances	127 761	59 738
	1 617 090	1 535 275

Remuneration of chief finance officer

Annual Remuneration	295 860	180 629
Car Allowance	28 000	72 258
Contributions to UIF, Medical and Pension Funds	39 250	41 598
Other Allowances	26 360	10 232
Acting Allowance	67 231	-
	456 701	304 717

The CFO was appointed for four months during the financial year.

Director - Corporate Services

Annual Remuneration	788 428	625 620
Car Allowance	72 000	70 000
Contributions to UIF, Medical and Pension Funds	72 770	46 017
Other Allowances	217 049	144 800
Leave pay-out	-	129 579
	1 150 247	1 016 016

The Director Corporate Services resigned during the year and the position remained vacant at year end

Director Community Services

Annual Remuneration	1 160 747	1 353 527
Car Allowance	60 000	60 000

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20. Employee related costs (continued)		
Contributions to UIF, Medical and Pension Funds	159 429	123 716
Other Allowances	98 471	51 825
	1 478 647	1 589 068
Director Infrastructure and Water Services		
Annual Remuneration	782 581	238 610
Car Allowance	192 936	58 175
Contributions to UIF, Medical and Pension Funds	135 246	40 098
Other Allowances	85 442	8 658
	1 196 205	345 541
The position has been vacant for last 3 months of the financial year.		
Director Planning and Economic Development		
Annual Remuneration	943 222	990 343
Car Allowance	156 000	156 000
Contributions to UIF, Medical and Pension Funds	125 433	109 709
Other Allowances	102 174	33 961
	1 326 829	1 290 013
Chief Audit Executive		
Annual Remuneration	1 100 887	1 290 204
Car Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	182 493	159 837
Other Allowances	69 298	37 373
	1 472 678	1 607 414
21. Remuneration of councillors		
Executive Mayor	808 767	948 710
Chief Whip	749 203	706 289
Mayoral Committee Members	6 762 059	5 833 600
Speaker	729 532	807 695
Councillors	7 548 163	8 874 857
	16 597 724	17 171 151

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21. Remuneration of councillors (continued)		
Executive Mayor: Cllr Ramaila KS		
Basic salary	714 388	847 770
Travelling allowance	-	4 919
Cell phone allowance	40 800	43 200
Pension fund contributions	53 579	52 822
	808 767	948 711
Council Speaker: Cllr Manamela MM		
Basic salary	623 173	699 963
Cell phone allowance	40 800	42 200
Pension fund contributions	46 738	47 612
Medical aid benefit	18 821	17 921
	729 532	807 696
Chief Whip: Cllr Lepota TJ		
Basic salary	410 720	391 645
Travelling allowance	235 573	222 184
Cell phone allowance	40 800	38 900
Pension fund contributions	30 804	26 654
Medical aid benefit	31 306	26 906
	749 203	706 289
Mayoral Committee Members		
Basic salary	3 306 840	2 966 694
Travelling allowance	2 677 700	2 262 133
Cell phone allowance	367 200	329 200
Pension fund contributions	247 969	205 951
Medical aid benefit	162 351	69 622
	6 762 060	5 833 600
22. Depreciation and amortisation		
Property, plant and equipment	85 982 872	79 531 849
23. Impairment of assets		
Impairments		
Property, plant and equipment	3 767 402	2 636 107
The municipality has assessed the slow moving projects and immovable assets for existence of impairment conditions. The recoverable amount of the asset was based on its fair value less its value in use.		
24. Finance costs		
Borrowings	11 077	80 657
Late payment of creditors	335 856	165 582
Discounting of provisions	3 482 815	3 315 864
	3 829 748	3 562 103

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25. Debt impairment		
Debt impairment	15 101 117	15 754 455
26. Bulk purchases		
Water	196 006 452	133 159 049
27. Contracted services		
VIP Sanitation	66 260 366	76 603 384
28. General expenses		
Advertising	937 764	1 429 353
Auditors remuneration	7 433 101	5 857 084
Bank charges	289 155	355 903
Consulting and professional fees	45 860 339	33 480 022
Audit committee expenses	564 520	498 140
IT support	4 362 178	330 258
Entertainment	33 785	39 543
Accommodation	680 877	843 428
Hire charges	923 572	712 291
Insurance	3 526 968	2 260 147
IT expenses	-	41 867
Projects	75 350	-
Fuel and oil	12 434 655	11 462 433
Printing and stationery	2 954 156	2 237 750
Protective clothing	2 646 163	539 290
Security (Guarding of municipal property)	35 324 031	31 590 667
Software expenses	2 288 920	2 524 132
Staff welfare	835 417	686 950
Subscriptions and membership fees	3 645 410	3 195 017
Telephone and fax	4 438 018	4 073 863
Transport and freight	2 637 611	2 712 111
Training	2 283 201	1 742 192
Travel - local	1 269 325	1 145 287
Electricity	43 425 670	41 508 325
Other expenses	5 341 058	11 530 125
Tankering costs	43 048 319	37 483 475
Catering services	3 035 286	2 376 976
Staff recruitment	393 720	186 259
Meter reading	8 671 902	4 321 805
Bursaries	1 946 968	3 933 063
Audio-visual services	4 970 225	5 743 309
	246 277 664	214 841 065
29. Auditors' remuneration		
Fees	6 635 944	4 823 312
Consulting	797 157	1 033 772
	7 433 101	5 857 084

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Figures in Rand	2019	2018
30. Cash generated from operations		
Surplus	325 796 299	371 800 059
Adjustments for:		
Depreciation and amortisation	85 982 872	79 531 849
Gain on sale of assets and liabilities	276 547	3 608 186
Impairment deficit	3 767 402	2 636 107
Debt impairment	15 101 117	15 754 455
Movements in operating lease assets and accruals	267 305	(1 059 861)
Creditors written-off	(87 737)	-
Movements in provision for land fill site	-	69 352
Interest received - debtors	(11 892 632)	(8 159 250)
Finance cost provisions	3 482 815	3 315 864
Actuarial gains	(927 478)	(2 128 061)
Provision for land fill written back	(12 441 973)	(9 607 460)
Movement in Post retirement benefit	(47 214)	875 939
Changes in working capital:		
Inventories	3 977 445	(1 400 674)
Receivables from exchange transactions	(34 648 993)	(27 093 687)
Other receivables from non-exchange transactions	(4 950 919)	50 938
Payables from exchange transactions	52 624 960	78 869 519
VAT	10 109 462	(14 825 645)
Unspent conditional grants and receipts	15 840 007	10 977 108
Consumer deposits	400 465	1 421 833
Operating lease	-	(1 059 861)
Payment received in advance	520 182	-
Prepayment	-	16 212
	453 149 932	503 592 922

31. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Other financial assets	1 000	1 000
Trade and other receivables from exchange transactions	98 958 282	98 958 282
Other receivables from non-exchange transactions	53 368 989	53 368 989
Cash and cash equivalents	58 868 292	58 868 292
	211 196 563	211 196 563

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	375 320 312	375 320 312

2018

Financial assets

	At amortised cost	Total
Other financial assets	1 000	1 000

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Figures in Rand	2019	2018
31. Financial instruments disclosure (continued)		
Trade and other receivables from exchange transactions	70 420 853	70 420 853
Other receivables from non-exchange transactions	47 347 671	47 347 671
Cash and cash equivalents	103 424 673	103 424 673
	221 194 197	221 194 197

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	377 465 167	377 465 167

32. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	400 647 992	415 276 181
• Agri Seta Certification	-	28 060
	400 647 992	415 304 241

Not yet contracted for and authorised by accounting officers

• Property, plant and equipment	52 021 009	-
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Total capital commitments

Already contracted for but not provided for	400 647 992	415 276 181
Not yet contracted for and authorised by accounting officers	52 021 009	-
	452 669 001	415 276 181

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	28 304 327	31 082 186
- in second to fifth year inclusive	34 070 418	21 505 184
	62 374 745	52 587 370

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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33. Contingencies

Litigation is in the process against the municipality relating to a dispute with awarding of contracts, payment to contractors and dismissed employees to the value of R 63 679 469 (2017 - R 140,638,709). The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the cases should be resolved within the next two years.

The labour matters against the municipality amounted to R 529,634 and civil cases for unfair SCM processes and contracts disputes amounted to R 63,149,835.

Contingent assets

Civil proceedings have commenced against the entity previous employees concerned to recover an amount of R 341 981 - as a result of material losses incurred in the previous year.. According to Entity's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

In June 2013 the municipality made advance payment to suppliers amount to R151 million for VIP precast toilets which was paid into guarantee account were funds will only be realised to the service providers when written consent by a nominated authorised person at the Municipality is received by the bank. The projects were completed in 2015/2016 financial year and there were savings on the projects amounting to R4 830 627 (2018 - R4 830 627) which was erroneously transferred to the service providers. According to management, it is probable that the full amount can be recovered from the service providers.

34. Related parties

Relationships

Accounting Officer and Senior Management
Councillors

Refer to note 20
Refer to note 21

Related party balances

Grants received from related parties

IDC	301 450	481 529
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35. Prior period errors

Receivable from exchange transaction: correction of customers accounts who were billed using incorrect tariffs and readings.

VAT receivable: correction of customers accounts who were billed using incorrect tariffs and readings.

Property, plant and equipment: correction of completed in the prior years which were not capitalised.

Property plant and equipment: recognition of assets which were discovered during the verification of assets.

Cash and cash equivalents: correction of ELE deleted on system but no entries were effected on the general ledger.

Payables from exchange transaction(Advane payment): correction of customers accounts who were billed using incorrect tariffs and readings.

Provisions: Correction of short term portion of provision incorrectly calculated in the prior year.

Operating lease liability: correction of prior year incorrect calculation of straightlining of lease.

Accumulated surplus: correction of customers accounts who were billed using incorrect tariffs and readings.

Accumulated surplus: provision for Bonus not accounted for in the year 2017 financial year.

Services charges: correction of customers accounts who were billed using incorrect tariffs and readings.

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35. Prior period errors (continued)

Interest received - Debtors: correction of customers accounts who were billed using incorrect tariffs and readings.

Employee related cost: correction of prior year payment incorrectly captured in the current year.

Depreciation and amortisation: Capitalisation of projects completed in the prior year and recognition of asset on the floor not in the asset register.

Loss on disposal of assets; correction of prior year disposal.

General expenses: correction of ELE deleted on system but no entries were effected on the general ledger.

Repairs and maintenance: Correction of amount not accrued in the prior year.

Guarantees : correction of pre-payments which were incorrectly disclosed as contingent assets.

Irregular expenditure: correction of ammount incorrectly written-off as irrecoverable by Council without conducting investigations.

Fruitless and wasteful expenditure: correction of amount incorrectly written-off as irrecoverable by Council without conducting an investigation.

Provision: correction of current and non-current portion of provision which was incorrectly calculated.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Receivable from exchange transaction	-	(1 748 769)
VAT receivable	-	182 546
Cash and cash equivalent	-	47 200
Accumulated surplus	-	(3 717 792)
Payables from exchange transaction	-	20 290 193
Property, Plant and equipment	-	8 446 467
Operating Lease	-	295 821
Receivable from non-exchange transaction	-	17 379 596

Statement of financial performance

Service charges	-	(1 344 579)
Depreciation	-	3 260 511
Interest received - debtors	-	(189 154)
Employee costs	-	6 834 017
Transfers and subsidies	-	18 908
Impairment loss	-	239 267
Finance cost	-	165 582
Lease rentals operating	-	295 821
Loss on disposal of assets and liabilities	-	(1 864 224)
General expenses	-	285 558
Repairs and maintenance	-	(29 500)

36. Comparative figures

Certain comparative figures have been restated.

37. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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37. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

38. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

39. Events after the reporting date

Management is not aware of any events that occurred after year end that may have an impact on the financial statements.

40. Unauthorised expenditure

Opening balance as previously reported	54 159 575	-
Opening balance as restated	54 159 575	-
Expenditure during the year	194 744 628	54 159 575
Closing balance	248 904 203	54 159 575

41. Fruitless and wasteful expenditure

Opening balance as previously reported	5 777 475	23 489 864
Opening balance as restated	5 777 475	23 489 864
Less: Amounts recoverable - current	-	(15 069)
Less: Amount written off - current	(444 914)	-
Expenditure during the year	531 313	133 442
Expenditure recovered	-	(17 830 762)
Closing balance	5 863 874	5 777 475

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42. Irregular expenditure		
Opening balance as previously reported	1 122 501 182	1 098 892 614
Add: Irregular Expenditure - current year	74 775 996	23 608 568
Add: Amounts written off as irrecoverable (not condoned)	1 197 277 178	1 122 501 182
Less: Amount written off - current	(474 527 895)	-
Closing balance	722 749 283	1 122 501 182
43. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	3 627 328	3 182 130
Amount paid - current year	(3 627 328)	(3 182 130)
	-	-
Material losses (Water distribution)		
KL of water lost	11 189 317	15 749 310
Value of water losses during the year	60 682 242	97 012 345
Audit fees		
Opening balance	1 024 743	-
Current year subscription / fee	7 165 246	6 164 172
Amount paid - current year	(8 189 989)	(5 139 429)
	-	1 024 743
PAYE and UIF		
Opening balance	4 590 221	-
Current year subscription / fee	78 280 649	60 497 640
Amount paid - current year	(82 870 870)	(55 907 419)
	-	4 590 221
Pension and Medical Aid Deductions		
Opening balance	(142 425)	(142 425)
Current year subscription / fee	75 187 061	67 801 273
Amount paid - current year	(74 928 492)	(67 801 273)
	116 144	(142 425)

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43. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Sihlangu TL	83	-	83
Councillor Nchabeleng TL	1 172	-	1 172
Councillor Matsetela ML	-	6 475	6 475
	1 255	6 475	7 730

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Sihlangu TL	1 350	-	1 350
Councillor Nchabeleng TL	521	-	521
Councillor Matsetela ML	-	15 288	15 288
	1 871	15 288	17 159

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

The municipality has deviated from normal supply chain processes with transactions to the value of R572 408. The transactions were duly reported to council and subjected to investigation by council committee.

45. Budget differences

Material differences between budget and actual amounts

The following are explanations for material variances between budgeted and actual amounts.

N1 - There are new additional areas that were billed in the financial year.

N2 - The increase in outstanding debtors throughout the year.

N3 - Interest on primary bank account was low for the year due to cash flow challenges experienced during the year.

- Less gains on assets recognised for the year.

N4 - The transfer of the landfill to Makhuduthamaga Local Municipality.

N5 - The implementation of investment policy that had yielded positive variances.

N6 - The variances is due to the Regional Bulk Infrastructure Grant (RBIG) being an indirect grant, furthermore there were delays in approval of projects and transfer of the grants by the transferring departments (Department of Water & Sanitation)

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45. Budget differences (continued)

N7 - The variances were mainly due to the excessive spending on overtime, standby allowance, shift allowance and travel allowance.

N8 - The variances was due to excessive spending on travel allowance.

N9 - The budget was not adequately provided for.

N10 - The variance was due to increase in discounting cost/factor on long service and leave provision.

N11 - The variance was due to budget not provided for.

N12 - The variance was due to budget not provided for.

N13 - The budget was not adequately provided for.

N14 - The budget was not adequately provided for

N15 - The budget was not adequately provided for

N16 - The budget was not adequately provided for.

N17 - The varinces is due to long services allowance.